

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 ERDA-05 AID-05 CEA-01 CIAE-00 CIEP-01

COME-00 DODE-00 EB-07 FEAE-00 FPC-01 H-02 INR-07

INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06

SAM-01 OES-03 SP-02 SS-15 STR-04 TRSE-00 PA-01 PRS-01

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R 231130Z OCT 75

FM AMCONSUL SAO PAULO

TO SECSTATE WASHDC 6515

INFO AMEMBASSY BRASILIA

C O N F I D E N T I A L SECTION 1 OF 2 SAO PAULO 2223

E.O. 11652: GDS

TAGS: PINT, PINS, ENRG, BR

SUBJECT: SAO PAULO REACTIONS TO "RISK CONTRACT" DECISION

1. INTRODUCTION AND SUMMARY: THE FOLLOWING MESSAGE, DRAFTED OCTOBER 17, HAS BEEN COORDINATED WITH THE EMBASSY, WHICH CONCURS IN ITS TRANSMISSION. BEGIN SUMMARY: INITIAL REACTIONS FROM THE SAO PAULO BUSINESS COMMUNITY TO THE CABINET'S OCTOBER 9 DECISION CONCERNING SERVICE CONTRACTS WITH FOREIGN PETROLEUM COMPANIES ARE STRONGLY FAVORABLE. PAULISTA PLUTOCRATS HAVE EVEN BEEN SPECULATING ENTHUSIASTICALLY ABOUT THE POSSIBLE RESIGNATION OR REMOVAL OF THE TWO CABINET MINISTERS WHO OPPOSED THE PETROLEUM CONTRACT DECISION AND WHOSE POLITICAL THINKING GENERALLY IS CONSIDERED IN CONSERVATIVE CIRCLES TO BE QUESTION-ABLE. THE MEASURES ALSO SEEMS TO HAVE BEEN "SOLD" TO THE ARMED FORCES ON THE GROUNDS THAT PETROLEUM IS A CRITICAL INDEX FACTOR OF NATIONAL POWER. THERE HAS BEEN NO PERCEPTIBLE ADVERSE REACTION, AS YET, FROM NATIONALIST-MINDED ELEMENTS IN THE LOCAL ARMY GARRISON. THE SAO PAULO PRESS HAS ALSO SUPPORTED THE PETROLEUM DECISION. THE ONLY SECTOR THUS FAR TO PUBLICLY EXPRESS ITS OPPOSITION HAS BEEN THE MAJORITY MDB BENCH IN
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THE STATE LEGISLATURE. HOWEVER, THERE IS MORE GENERAL CONCERN

OVER THE IMPORT RESTRICTIONS ANNOUNCED BY PRESIDENT GEISEL AND THE INFLATIONARY IMPACT OF THE INCREASE IN GAS PRICES. ALSO, MANY BELIEVE THAT GEISEL'S PROJECTED TIMETABLE FOR ECONOMIC RECOVERY IS OVERLY OPTIMISTIC. SOME ARE WORRIED ABOUT THE POSSIBILITY OF LABOR TROUBLES ON THE HORIZON. THE PROSPECT OF RISING POPULAR DISCONTENT HAS STRENGTHENED THE MDB'S CONVICTION THAT IT IS ON ITS WAY TOWARDS ELECTORAL VICTORIES IN 1976 AND 1978; PROVIDED, OF COURSE, THAT THE CURRENT RULES OF THE GAME ARE MAINTAINED. HOWEVER, THE ENHANCED PROSPECTS FOR FURTHER MDB ELECTION TRIUMPHS PERFORCE HAVE ALSO STRENGTHENED BELIEFS IN THE INEVITABILITY OF EVENTUAL GOVERNMENT MEDDLING WITH THE ELECTORAL RULES AND/OR MILITARY INTERVENTIONS IN THE ELECTION PROCESS. END SUMMARY.

"A. THE REACTION OF A SELECT GROUP OF PAULISTA AND AMERICAN BUSINESSMEN AS THEY WATCHED PRESIDENT GEISEL'S TV ADDRESS AT THE CONGEN'S RESIDENCE OCTOBER 9 WAS ONE OF UNIFORM SATISFACTION WITH RESPECT TO THE DECISION TO AUTHORIZE PETROBRAS TO ENTER INTO SO-CALLED RISK CONTRACTS WITH FOREIGN PETROLEUM COMPANIES. THE DINNER GUESTS UNANIMOUSLY JUDGED THAT DECISION TO BE REALISTIC AND OVERDUE, CONSIDERING BRAZUL'S PROJECTED BALANCE OF TRADE DEFICIT AND THE CRITICAL ROLE WHICH THE OIL IMPORT BILL PLAYS IN THE TRADE IMBALANCE. OUR GUESTS' RESPONSE HAS BEEN REPEATED SUBSEQUENTLY TO US BY OTHER CONGEN FINANCIAL AND COMMERCIAL SOURCES WITH WHOM WE HAVE BEEN IN CONTACT OVER THE PAST WEEK. LEADERS OF FIESP AND THE SAO PAULO COMMERCIAL FEDERATION HAVE ISSUED STATEMENTS ENDORSING PRESIDENT GEISEL'S RISK CONTRACT DECISION. ALSO, THE SAO PAULO PRESS HAS HEARTILY ENDORSED THE MOVE, A PARTICULARLY PIECE HAVING BEEN WRITTEN FOR THE OCTOBER 12 ISSUED OF 'O ESTADO' BY CHIEF EDITOR FERNANDO PEDREIRA, ENTITLED 'TWO HUNDRED METERS FROM THE BEACH.'

"B. HOWEVER, WE HAVE HEARD CONSIDERABLE CONCERN EXPRESSED IN COMMERCIAL QUARTERS ABOUT THE IMPLICATIONS OF OTHER PORTIONS OF GEISEL'S ADDRESS, PARTICULARLY THE ANNOUNCEMENT OF A 30 PERCENT INCREASE IN DUTIES TO BE IMPOSED ON 'INTERMEDIATE' IMPORTS AND THE AVERAGE 25 PERCENT HIKE IN GASOLINE PRICES. IMPORTERS WERE NERVOUSLY AWAITING THE TEXT OF THE DECREE (1421, PUBLISHED IN DIARIO OFICIAL OCTOBER

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10) WHICH IMPOSED INCREASED TARIFFS ON SOME 2,000 IMPORTED ITEMS, INCREASES WHICH WILL ADD AT LEAST SOME OF THEM TO THE LIST OF COMMODITIES SUBJECTED TO THE SIX-MONTH DEPOSIT REQUIREMENT BY PUSHING THEIR DUTIES PAST 37 PERCENT (BANK OF BRAZIL RESOLUTION 331, JULY 16, 1975). THERE IS ALSO SKEPTICISM THAT THE MEASURES ANNOUNCED WILL BE SUFFICIENT TO REDUCE SIGNIFICANTLY THE CURRENT ACCOUNTS DISEQUILIBRIUM AND A BELIEF THAT MORE RESTRICTIVE MEASURES MAY HAVE TO BE ADOPTED

LATER. MANY ARE QUESTIONING GEISEL'S PROJECTED TIMETABLE FOR RECOVERY, DOUBTING THAT THERE WILL BE LIGHT AT THE END OF THE TUNNEL IN 1977.

"C. THE MORE THOUGHTFUL PAULISTA BUSINESSMEN ARE CONCERNED ABOUT POSSIBLE POLITICAL REACTIONS TO THE INFLATIONARY IMPACT OF THE MEASURES ANNOUNCED BY GEISEL. EX-GOVERNOR ABREU SODRE, FOR EXAMPLE, TOLD US OCTOBER 9 HE WAS WORRIED ABOUT THE PROSPECT OF LABOR TROUBLES AND OTHER MANIFESTATIONS OF POPULAR DISCONTENT DEVELOPING IN THE MONTHS TO COME. HE THOUGHT THAT THE PARLIAMENTARY DEBATES OVER RISK CONTRACTS WOULD BE CONTAINED, POINTING OUT THAT MDB NATIONAL LEADER ULYSSES GUIMARAES PRIVATELY EXPRESSES HIMSELF AS BEING NOT UNFAVORABLE TO THE SERVICE CONTRACT CONCEPT. SODRE ALSO JUDGED THAT SCARE TALK CONJURING UP AN ACCELERATED SCENARIO INVOLVING THE CLOSING DOWN OF CONGRESS WAS JUST THAT - SCARE TALK. HOWEVER, SODRE ADDED, NOTWITHSTANDING THE MILITARY HIGH COMMAND'S SEAL OF APPROVAL, THE NATIONALIST LOBBY IN THE ARMED FORCES HAS YET TO BEEN HEARD FROM.

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INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06

SAM-01 OES-03 SP-02 SS-15 STR-04 TRSE-00 PA-01 PRS-01

/091 W

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R 231130Z OCT 75

FM AMCONSUL SAO PAULO

TO SECSTATE WASHDC 6516

INFO AMEMBASSY BRASILIA

C O N F I D E N T I A L SECTION 2 OF 2 SAO PAULO 2223

"D. FOR MORE THAN A YEAR, THE GOVERNMENT EVIDENTLY HAS BEEN EDUCATING THE HIGH COMMAND TO THE PETROLEUM PROBLEM

AND PREPARING IT FOR THE DECISION REACHED LAST WEEK. AN EX-STATE CABINET MEMBER TOLD US HE ATTENDED A BRIEFING SEVERAL MONTHS AGO AT SECOND ARMY HEADQUARTERS IN WHICH OFFICERS OF THAT COMMAND WERE BRIEFED BY ADMIRAL HECK ON THE DISASTROUS CONSEQUENCES FOR BRAZIL'S NATIONAL DEFENSE POSTURE IF OIL SUPPLIES WERE CUT AS A RESULT OF ANOTHER MIDEAST WAR. A LOCAL INTELLIGENCE OFFICER WHO LAST WEEK ATTENDED AND PARTICIPATED IN THE MILITARY DISCUSSIONS IN BRASILIA PRECEDING GEISEL'S ADDRESS (WHICH WERE REPORTED IN THE OCTOBER 15 EDITION OF O ESTADO) ALSO STRESSED TO US THE NATIONAL SECURITY RATIONALE AS A CRITICAL ELEMENT IN THE MILITARY HIGH COMMAND'S APPROVAL OF THE RISK CONTRACT DECISION. AS THIS OFFICER, AS WE HAVE REPORTED EARLIER, FREQUENTLY REFLECTS THE VIEWS OF HARDLINING NATIONALIST ELEMENTS IN THE MILITARY AND INTELLIGENCE SERVICES, WE TAKE HIS COMMENTS AS A POTENTIALLY SIGNIFICANT NEGATION OF ABREU SOBRE'S ANTICIPATION OF A NATIONALIST BACKLASH DEVELOPING WITHIN THE MILITARY TO THE RISK CONTRACT DECISION, AT LEAST IN THE VERY IMMEDIATE FUTURE.

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"E. AS TO BE EXPECTED, THE REPORTS THAT TWO MINISTERS, SILVEIRA AND GOMES, VOTED AGAINST THE RISK CONTRACT DECISION INITIALLY PRODUCED A WAVE OF COMMENTS THAT THEY WOULD BE FORCED TO RESIGN. SODRE, WHO IS OFTEN WELL INFORMED ON INTER-GOVERNMENTAL DELIBERATIONS IN BRASILIA, TOLD US THE EVENING OF GEISEL'S ADDRESS HE WAS CONFIDENT THAT GOMES WAS ON HIS WAY OUT. SO DID VEJA PUBLISHER CIVITA. THE NAME MOST HEARD AS A POTENTIAL REPLACEMENT OF SILVEIRA IS THAT OF THE CURRENT AMBASSADOR OF GREAT BRITAIN, ROBERTO CAMPOS. HOWEVER, WE SUSPECT THAT THESE COMMENTS ARE MORE IN THE WAY OF A KNEE-JERK REACTION AND NOT BASED ON RELIABLE INSIDE INFORMATION.

"F. STATEMENTS OF LOCAL POLITICANS AND THE DEBATES IN THE STATE ASSEMBLY GENERALLY HAVE PARALLELED THE POSITIONS ADOPTED BY THE RESPECTIVE NATIONAL PARTY ORGANIZATIONS IN BRASILIA. THE MINORITY ARENA DELEGATION TO THE STATE ASSEMBLY SENT A NOTE OF SUPPORT TO PRESIDENT GEISEL. ASSEMBLY MAJORITY LEADER (MDB) ALBERTO GOLDMAN, EXTREMELY WELL ARMED WITH EXPORT-IMPORT DATA, TOOK A VERY HARD STAND AGAINST THE GOVERNMENT'S DECISION, USING THE SAME ARGUMENTS HEARD IN THE BRASILIA DEBATES - BETRAYAL OF PETROBRAS' MONOPOLY, ESPECIALLY IN THE LIGHT OF EARLIER GOVERNMENT CLAIMS FOLLOWING THE GAROUPA FINDS THAT BRAZIL WAS ON ITS WAY TO SELF-SUFFICIENCY IN OIL OUTPUT; ALLEGED INVISIBLE PRESSURES FROM ABROAD AND A GOVERNMENT DESIRE TO PACIFY INTERNATIONAL CREDITORS; A FAR GREATER TRADE DEFICIT GENERATED BY MULINATIONALS IN BRAZIL THAN THAT REPRESENTED BY OIL IMPORTS; FALSITY OF THE RISK CONCEPT IN VIEW OF THE EXTENSIVE GEOLOGICAL MAPPING ALREADY

UNDERTAKEN AT THE EXPENSE OF THE BRAZILIAN TAXPAYER, ETC.
ON OCTOBER 16, THE ASSEMBLY VOTED 29 AGAINST 23 (OUT OF A
TOTAL MEMBERSHIP OF 70), APPROVING A MOTION REQUESTING THE
PRESIDENT AND THE CONGRESS TO REJECT RISK CONTRACTS WITH
FOREIGN OIL COMPANIES.

"G. ALTHOUGH NATIONAL ARENA LEADERS EVIDENTLY WERE NOT
TAKEN INTO GOVERNMENT CONFIDENCE PRIOR TO REACHING ITS
DECISION AND CONSEQUENTLY THE PARTY HAS BEEN FURTHER
RIDICULED FOR HAVING BEEN CAUGHT OFF BASE, IT IS COMMENTED
LOCALLY THAT PAULO EGYDIO ANTICIPATED THE DECISION AND WAS
EMITTING THE RIGHT SIGNALS SEVERAL DAYS BEFORE THE
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ANNOUNCEMENT. THIS IS INTERPRETED AS A RENEWED SIGN OF
GEISEL'S CONFIDENCE IN THE GOVERNOR AND AS AN ENHANCEMENT
OF HIS USEFUL ROLE AS A GOVERNMENT BELLWETHER, WHICH, TO
SOME DEGREE, SERVES TO STRENGTHEN HIS NATIONAL STATURE.
WHILE WE HAVE NOT YET SEEN A BREAKDOWN ON YESTERDAY'S
ASSEMBLY VOTE, WE SUSPECT THAT, PARALLELING THE PARTY
DIVISIONS IN BRASILIA TAKEN NOTE OF IN THE PRESS, THERE ARE
MODERATE MDB LEADERS IN THE STATE ASSEMBLY WHO APPROVE
THE RISK CONTRACT CONCEPT AND THERE MAY ALSO BE SOME
ARENISTAS WHO ARE OPPOSED.

"H. INEVITABLY, THE RISK CONTRACT DECISION AND ANTICIPATION
OF INCREASED INFLATIONARY TRENDS AND OF FURTHER BELT
TIGHTENING HAS LED TO STRENGTHENED CONVICTION ON THE PART
OF THE LOCAL MDB LEADERSHIP THAT THE PARTY WILL DO EVEN
BETTER IN THE 1976 MUNICIPAL ELECTIONS THAN SO FAR PREDICTED
AND THAT IT IS ALSO HEADED FOR A SURE NATIONAL VICTORY IN THE
GENERAL PARLIAMENTARY ELECTIONS OF 1978, PROVIDED THAT THE
CURRENT RULES OF THE GAME ARE MAINTAINED. HOWEVER, THE
IMPROVED PROSPECTS FOR MDB ELECTION TRIUMPHS HAVE
STRENGTHENED BELIEFS LOCALLY THAT GOVERNMENT MEDDLING WITH THE
ELECTORAL RULES AND/OR MILITARY INTERVENTION SOME TIME DOWN
THE ROAD ARE INEVITABLE, NOTWITHSTANDING THE DISCLAIMERS
CURRENTLY EMANATING FROM BRASILIA. ACCORDING TO OUR LOCAL
INTELLIGENCE SOURCE, THE MILITARY COMMAND HAS DECIDED
'POR ENQUANTO' TO GO ALONG WITH GEISEL'S DECISION TO WAIT
UNTIL THE 1976 MUNICIPAL RESULTS BEFORE CONSIDERING ANY
DRASTIC POLITICAL ACTION. NEVERTHELESS, HE BELIEVES THAT THE
HIGH COMMAND INTRINSICALLY IS FOR SUCH ACTION BEFORE 1976.
SHOULD THE PROJECTED ADVERSE ECONOMIC AND POLITICAL FACTORS
BUILD UP IN SUCH A WAY PRIOR TO NOVEMBER 1976 TO SUGGEST AN OVER-
WHELMING MDB VICTORY IN THE MUNICIPAL ELECTIONS, HE THINKS
THE HIGH COMMAND WILL REVERSE ITS ACQUIESCENCE IN GEISEL'S
SCENARIO AND PRESSURE THE GOVERNMENT TO PREVENT AN MDB
MUNICIPAL VICTORY. LEADING POLITICAL REPORTERS IN SAO PAULO
ARE ALSO IN AGREEMENT WITH THIS ANALYSIS."

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM INDUSTRY, FOREIGN INVESTMENT, LAW, TEXT, CONTRACTS, GOVERNMENT REACTIONS, DIPLOMATIC COMMUNICATIONS
Control Number: n/a
Copy: SINGLE
Draft Date: 23 OCT 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: CunninFX
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975SAOPA02223
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D750368-0996
From: SAO PAULO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19751024/aaaaavcm.tel
Line Count: 278
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION ARA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 6
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: CunninFX
Review Comment: n/a
Review Content Flags:
Review Date: 04 SEP 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <04 SEP 2003 by BoyleJA>; APPROVED <19 DEC 2003 by CunninFX>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: SAO PAULO REACTIONS TO "RISK CONTRACT" DECISION
TAGS: PINT, PINS, ENRG, BR
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006